

**REPORT OF THE AUDIT OF THE  
OWSLEY COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**September 8, 2003**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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C R I T L U A L L E N  
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Cale Turner, Owsley County Judge/Executive  
Honorable Kelly Shouse, Owsley County Sheriff  
Members of the Owsley County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Owsley County Sheriff's Settlement - 2002 Taxes as of September 8, 2003.

We engaged Ross & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Owsley County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE  
OWSLEY COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**September 8, 2003**

**ROSS & COMPANY, PLLC  
Certified Public Accountants**

**800 Envoy Circle  
Louisville, KY 40299  
Telephone: (502) 499-9088  
Facsimile: (502) 499-9132**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**OWSLEY COUNTY**  
**SHERIFF'S SETTLEMENT - 2002 TAXES**

**September 8, 2003**

Ross & Company, PLLC has completed the audit of the Sheriff's Settlement - 2002 Taxes for Owsley County Sheriff as of September 8, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$203,016 for the districts for 2002 taxes, retaining commissions of \$8,399 to operate the Sheriff's office. The Sheriff distributed taxes of \$194,550 to the districts for 2002 taxes. Taxes of \$2 are due to the districts from the Sheriff and refunds of \$134 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff Should Obtain a Written Collateral Security Agreement to Protect Deposits
- The Sheriff Should Pay Interest Monthly
- Lacks Adequate Segregation of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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Independent Auditor's Report

We have audited the Owsley County Sheriff's Settlement - 2002 Taxes as of September 8, 2003. This tax settlement is the responsibility of the Owsley County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Owsley County Sheriff's taxes charged, credited, and paid as of September 8, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 10, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Cale Turner, Owsley County Judge/Executive  
Honorable Kelly Shouse, Owsley County Sheriff  
Members of the Owsley County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Obtain a Written Collateral Security Agreement to Protect Deposits
- The Sheriff Should Pay Interest Monthly
- Lacks Adequate Segregation of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -  
December 10, 2003

OWSLEY COUNTY  
KELLY SHOUSE, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES

September 8, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transferred to Incoming Sheriff	\$ 32,313	\$ 50,315	\$ 83,496	\$ 26,591
Franchise Corporation	8,218	14,066	22,786	
Oil and Gas Property Taxes	12	18	32	10
Penalties	1,023	1,534	2,636	808
Gross Chargeable to Sheriff	\$ 41,566	\$ 65,933	\$ 108,950	\$ 27,409
<u>Credits</u>				
Exonerations	\$ 902	\$ 1,739	\$ 2,362	\$ 749
Delinquents:				
Real Estate	5,852	8,970	15,104	4,624
Tangible Personal Property	10	33	29	28
Intangible Personal Property				440
Total Credits	\$ 6,764	\$ 10,742	\$ 17,495	\$ 5,841
Taxes Collected	\$ 34,802	\$ 55,191	\$ 91,455	\$ 21,568
Less: Commissions *	1,479	2,345	3,658	917
Taxes Due	\$ 33,323	\$ 52,846	\$ 87,797	\$ 20,651
Taxes Paid	33,311	52,828	91,424	20,644
Commissions Refunded from School			3,657	
Refunds (Current and Prior Year)	35	50	88	26
Due Districts or (Refund(s) Due Sheriff)		**		
as of Completion of Fieldwork	\$ (23)	\$ (32)	\$ (58)	\$ (19)

\* and \*\* See Page 4

The accompanying notes are an integral part of this financial statement.

OWSLEY COUNTY  
 KELLY SHOUSE, COUNTY SHERIFF  
 SHERIFF'S SETTLEMENT - 2002 TAXES  
 September 8, 2003  
 (Continued)

\* Commissions:

4.25% on	\$	111,561
4% on	\$	91,455

\*\* Special Taxing Districts:

Library District	\$	(12)
Health District		(5)
Extension District		(10)
Soil Conservations		(7)
City		<u>2</u>

Due Districts or (Refund(s) Due Sheriff)	\$	<u><u>(32)</u></u>
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The accompanying notes are an integral part of this financial statement.

OWSLEY COUNTY  
NOTES TO FINANCIAL STATEMENTS

September 8, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the FDIC. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

OWSLEY COUNTY  
NOTES TO FINANCIAL STATEMENT  
September 8, 2003  
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 5, 2003 through June 30, 2003.

Note 4. Interest Income

The Owsley County Sheriff earned \$18 as interest income on 2002 taxes. As of December 10, 2003, the Sheriff owes \$8 in interest to the school district and \$10 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Owsley County Sheriff collected \$3,817 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of December 10, 2003, the Sheriff owes \$821 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Owsley County Sheriff collected \$186 in advertising costs and \$950 in advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of December 10, 2003, the Sheriff owes \$186 in advertising costs to the county and \$950 in advertising fees to his fee account

## COMMENTS AND RECOMMENDATIONS



OWSLEY COUNTY  
KELLY SHOUSE, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of September 8, 2003

STATE LAWS AND REGULATIONS:

1.) The Sheriff Should Have A Written Agreement to Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of February 6, 2003, the Sheriff had bank deposits of \$78,783; FDIC insurance of \$100,000; and collateral pledged or provided of \$100,264. Even though the Sheriff obtained sufficient collateral of \$100,264, there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and, (c) an official record of the depository institution.

*Sheriff's Response:*

*As of December 8, 2003 the bank is currently working on a written collateral security agreement.*

2.) The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. During 2002 tax collections, Sheriff Kelly Shouse earned interest of \$18 on his tax account. As of December 10, 2003, Sheriff Kelly Shouse owes the Owsley County Board of Education \$8 in interest and owes the tax account \$10 from the fee account for interest. We recommend the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and fee account on a monthly basis.

*Sheriff's Response:*

*None*

OWSLEY COUNTY  
KELLY SHOUSE, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of September 8, 2003  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES:

3.) Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control, such as functions prescribed by statutes and regulations and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. We recommend that the Sheriff implement compensating controls to offset this internal control weakness. Examples of compensating controls are: 1) comparing source documents to the receipts and disbursements ledgers and to the monthly tax reports; 2) having deposits compared to the receipts ledger and bank statements; and 3) comparing checks to monthly tax reports. The lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness.

*Sheriff's Response:*

*None*

PRIOR YEAR:

The Former Sheriff Should Settle Amount Owed and Collect Amounts Due The Former Sheriff.

*This comment is not repeated in the current year.*

The Former Sheriff Should Distribute Interest Earned On Tax Collections.

*This comment is repeated in the current year.*

The Former Sheriff Should Pay Advertising Fees And Advertising Costs To The Fee Account And To The Fiscal Court, Respectively.

*This comment is not repeated in the current year.*

The Former Sheriff Should Have Maintained Sufficient Collateral to Protect Public Deposits.

*This comment is not repeated in the current year.*

The Former Sheriff Should Have Prepared All Tax Reports On A Timely Basis.

*This comment is not repeated in the current year.*

Receipts Were Not Deposited Intact Daily.

*This comment is not repeated in the current year.*

OWSLEY COUNTY  
KELLY SHOUSE, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of September 8, 2003  
(Continued)

PRIOR YEAR (CONTINUED)

The Former Sheriff Had A Cumulative Deficit of \$16,478 In His Official Bank Account.

*This comment is not repeated in the current year.*

The Former Sheriff Should Have Implemented Proper Accounting Procedures and Maintained Proper Accounting Records.

*This comment is not repeated in the current year.*

Lacks Adequate Segregation of Duties.

*This comment is repeated in the current year.*

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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The Honorable Cale Turner, Owsley County Judge/Executive  
The Honorable Kelly Shouse, Owsley County Sheriff  
Members of the Owsley County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Owsley County Sheriff's Settlement - 2002 Taxes as of September 8, 2003, and have issued our report thereon dated December 10, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Owsley County Sheriff's Settlement - 2002 Taxes as of September 8, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Obtain a Written Collateral Security Agreement to Protect Deposits
- The Sheriff Should Pay Interest Monthly

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Owsley County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation of Duties

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above, is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -  
December 10, 2003

